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Arizona Corporation Commission

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JUN 30 2008

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IN THE MATTER OF THE APPLICATION OF)
 DUNCAN RURAL SERVICES CORPORATION)
 FOR APPROVAL OF PURCHASED GAS)
 ADJUSTOR SURCHARGE)

DOCKET NO. G-02528-05-0687

**PLAN TO ACQUIRE FIXED
 PRICE GAS SUPPLIES**

Duncan Valley Electric Cooperative's Gas Division ("DVEC") which was formerly known as Duncan Rural Services Corporation hereby respectfully submits to the Arizona Corporation Commission (the "Commission") its plan to acquire fixed price natural gas supplies in compliance with Decision No. 68297. Duncan Rural Services Corporation was dissolved in accordance with Decision No. 69679, dated June 28, 2007. This Decision approved the dissolution of DRSC and the transfer DRSC's assets, certain liabilities and Certificate of Convenience and Necessity to a Gas Division of DVEC. This transfer and dissolution was completed on January 1, 2008.

I. THE DVEC PLAN.

Decision No. 68297 requires DVEC by June 30 of each year to file a plan indicating any fixed price supplies that it has acquired for the following winter season and how DVEC plans to hedge its natural gas supplies prior to the following winter heating season. Since the beginning of

1 May, DVEC has been actively preparing this plan and seeking bids for natural gas at a fixed price
2 during the 2008-2009 winter heating season. DVEC has not included in this plan a hedging
3 strategy due to the fact that it does not have the financial ability to buy gas now for the 2008-2009
4 heating season.

5
6 DVEC is currently paying approximately \$8.45 per MMBtu for natural gas on the spot
7 market through July. DVEC asked for bids from its natural gas supplier to provide 50 percent of
8 its historical gas purchased at a fixed contract price for a term of six months and twelve months
9 beginning in August, September and October. DVEC did not consider the twelve month bids
10 because the twelve month bids had a higher price than the six month bids. DVEC's largest users
11 (irrigators) who do not use a significant amount of gas in the winter months, would be forced to
12 pay the significantly higher costs associated with a twelve month contract during the summer
13 months. Some of these irrigators would stop pumping water at the higher twelve month bid
14 price.
15

16 The fixed price bids received for a six month contract beginning in August, September
17 and October of 2008 were \$10.50, \$11.25 and \$12.45, respectively. The bids for August,
18 September and October are significantly higher (approximately \$2.05 to \$4.00 per MMBtu) than
19 the current spot price of \$8.45 per MMBtu. DVEC is still evaluating whether or not to enter into a
20 contract for six months with a fixed price. DVEC needs to choose a contract beginning after
21 summer because it will not penalize DVEC's summer users by paying a significantly higher
22 contract price when the current spot price of gas is \$8.45 per MMBtu. In addition, the six month
23 contract must carry DVEC through the highest usage periods in the winter.

1 **II. CONCLUSION**

2 DVEC is still evaluating whether or not a plan that includes a fixed price contract for 50
3 percent of its historical gas purchased will significantly lessen the price risk to its customers
4 associated with winter natural gas supplies and purchases. If it can enter into such a contract at a
5 reasonable price after the summer usage period and if future spot prices are greater than the fixed
6 contract price in a given month, DVEC's customers will only pay up to the contract price for the
7 contracted 50 percent amount. If future spot gas prices are less than its fixed gas contract price in
8 a given month, then customers will experience savings on all gas purchases above the contracted
9 50 percent amount. DVEC may decide to enter into a fixed price contract if it is in the best
10 interest of its customers.
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15 RESPECTFULLY SUBMITTED this 30th day of June 2008.

16
17
18 By _____

John Wallace
Grand Canyon State Electric Cooperative Association
120 North 44th Street, Suite 100
Phoenix, AZ 85034

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20
21
22 Original and thirteen (13) copies of
23 Duncan Valley Electric Cooperative's Plan
 filed this 30th day of June, 2008 with:

DOCKET CONTROL
Arizona Corporation Commission
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Phoenix, Arizona 85007